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SUBJECT: LESOTHO: INPUT FOR 2008 PRESIDENT'S REPORT ON AGOA

REF: STATE 20082

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¶1. In accordance with reftel, post submits the following information for the President's 2008 report on the African Growth and Opportunity Act (AGOA).

AGOA Trade and Investment

¶2. Lesotho's exports to the United States under AGOA and Generalized System of Preferences (GSP) provisions were approximately \$443 million in 2007, accounting for 90% of the nation's total exports to the United States. These exports supported roughly 47,000 jobs, which experts estimate support 350,000 of Lesotho's two million citizens. As nearly one out of four Basotho are infected with HIV/AIDS (and nearly half of the working-age adults), the health services provided by textile factories as well as the wages paid to workers are a critical lifeline to very vulnerable populations.

Market Economy, Economic Reform,
And Elimination of Trade Barriers

¶3. Economic Situation: Lesotho's current macroeconomic situation is positive and stable largely due to large customs revenue transfer payments from the Southern African Customs Union (SACU) over the past four years. This has allowed Lesotho to build foreign currency reserves and repay some of its external debt. Diamond production, which Lesotho reinvigorated in 2004, helps to diversify the nation's exports slightly and led to increased growth rates of 7.2% in 2006 and 5.1% in 2007. The GOL projects a GDP growth rate of 6.5% in 2008-2009 due to further expansions of the diamond industry, continued recovery of the textile from external shocks in 2005, and rising public investment. Also due to SACU revenue sharing, Lesotho achieved a current account surplus of 4% of GDP in 2006 and 2.7% in 2007.

On the negative side, the continued vulnerability of the textile sector to external shocks and the predicted decline in future SACU revenue sharing payments will likely temper an otherwise strong macroeconomic situation.

¶4. Trade Liberalization: The GOL has made serious recent efforts to reduce the cost of doing business in Lesotho, including: 1) the creation of a "one stop shop" within the Ministry of Trade to reduce the number of steps required to register and license companies; and 2) the streamlining of procedures to obtain import and export permits (reducing wait times from several days to several minutes) through bringing Lesotho Revenue Authority and Ministry of Trade officials under

one roof. Exporters now need not apply for VAT refunds on a "per item" basis, and manufacturing license applications have been reduced from 16 to two pages.

Rule of Law, Political
Pluralism, and Anti-Corruption

¶5. The Lesotho Government is a constitutional monarchy. The Prime Minister, Pakalitha Mosisili, is head of government and has executive authority. The King serves a largely ceremonial function; he has only limited executive authority and does not actively participate in political initiatives. In the nation's February 2007 National Assembly election, the Lesotho Congress for Democracy (LCD) retained its control of the the National Assembly (the lower house of parliament), with the All Basotho Congress (ABC), the Basotho National Party, the National Independent Party, and the Lesotho Workers Party among the 9 opposition parties represented. The upper house of parliament, called the Senate, is composed of 22 principal chiefs whose membership is hereditary. The King, acting on the advice of the prime minister, appoints an additional 11 senators.

¶6. There were isolated reports of government corruption during the year. However, the GOL took serious action to combat it. Anti-corruption legislation passed in 1999 was implemented through the creation of an autonomous anti-corruption unit, the Directorate on Crime and Economic Offenses (DCEO). This unit actively prosecutes corruption cases at various levels of authority. For example, Principal Secretary for the Ministry of Justice and Human Rights Pontso Lebotsa was arrested for fraud in 2007 by DCEO and is currently awaiting trial on corruption-related charges.

Poverty Reduction

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¶7. The country's first Poverty Reduction Strategy (PRS) was approved by the World Bank in 2004 and officially expired in ¶2007. The GOL's official PRS review concluded that although the country achieved significant economic growth during the 2004-2007 period, the PRS indicators in the areas of health, water, and education were not encouraging. As a result, the government formulated a second poverty strategy, named the Lesotho Strategy for Growth and Poverty Reduction (LSGPR). The LSGPR, covering a five-year period from 2008 until 2013, aims to reduce poverty through broad-based economic growth designed to create jobs, generate income, and empower citizens to make investment decisions that will increase their quality of life.

¶8. The GOL signed a \$362.5 million compact with the United States Millennium Challenge Corporation (MCC) in July 2007. The compact aims to reduce poverty through urban and rural water infrastructure development, enhancing health care infrastructure, and stimulating private sector development keyed to the creation of private sector-led growth.

Labor

¶9. Lesotho's employers operate under the Labor Code Order of 1992 which nationally regulates terms of employment and requirements for worker health, safety, and welfare. It was amended in 2004 to address HIV/AIDS policies in the workplace. Unionization is permitted. In 2001, Lesotho ratified ILO Convention 182 on the Prohibition and Elimination of the Worst Forms of Child Labor and Convention 138 on Minimum Age of Admission to Employment.

¶10. The labor code contains statutory prohibitions against the employment of minors in commercial, industrial, or other

nonfamily enterprises involving hazardous or dangerous working conditions. The government effectively enforced these statutes. The legal minimum age for employment in commercial or industrial enterprises is 15 years, or 18 years for hazardous employment. Children under 18 may not be recruited for employment outside the country.

¶11. Embassy Maseru's primary contact on AGOA issues is Public Diplomacy, Economic, and Political Officer Christopher Smith (smithcm3@state.gov).

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